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SUBJECT: Media Reaction, O Globo newspaper, Economic Recovery

Economic Recovery

Rio-based center-right O Globo commented on Saturday, April 18, on page 06: "Like a patient coming out of the intensive care unit, the U.S. economy is starting to react to intense fiscal and monetary therapy. The massive dollar injection, added to a basic interest rate of virtually zero, equals a high-dosage adrenalin shock. And it seems to be working.

Some days ago, the Federal Reserve published, like it always does by this time of the month, the Beige Book, a thermometer of the business climate in 12 regions of the country. The good news is that the economy's contraction started slowing down in some regions--in the last quarter of 2008, annual GDP had shrunk by 6.3%. Some examples taken from the Fed report: a) Cleveland: manufacturing activity and steel shipping still fell, but orders seem to be slipping at a less aggressive rate; b) New York: economy is still slow, but companies are more optimistic with the outlook in the short term; c) Dallas: several sectors show signs of stabilization. Several other analyses are similar.

In order to boost expectations - what seemed impossible thus far - a series of relatively good Q1 results by banks. After Goldman Sachs and Wells Fargo celebrated their results last Thursday, J.P. Morgan did the same. In a total change from the end of last year, Hamie Dimon, main bank executive, reported that he is able to return US\$ 25 billion of taxpayer money to survive. And yesterday Citi - one of the symbols of the crisis - unveiled a US\$ 1.59 billion profit in the first quarter of 2009, much better, of course, than the US\$ 5 billion loss it posted in the same period a year ago, and better than the US\$ 17.5 billion loss in the last quarter of 2008.

But caution is warranted, as economist Paul Krugman said in his column in the New York Times. The real estate market is still weak; foreclosures are at high levels and there is a huge amount of defaults on credit card debts. The banks themselves, despite the good results recently, still need to restore confidence. Krugman teaches that in the Great Depression, in the 1930s, things did not happen in a linear fashion. There were periods of (fake) recovery followed by plunges. However, it is still encouraging that the U.S. economy shows conditions to react. In Brazil, where electoral discourse gains more and more space, the danger is that some optimistic market indicators will be used politically, when in fact these figures cannot be viewed as trendsetters yet."

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